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SUBJECT: CROATIA'S INA IN IRAN OIL EXPLORATION DEAL

Classified By: Econ Officer Nicholas Berliner for reasons 1.4 b/d.

11. (U) Croatia's national oil and gas company INA (44 percent state owned) announced April 9 that it had entered into a deal with the National Iranian Oil Company (NIOC) for exploration in the Moghan-2 block in northwestern Iran. The deal commits INA to exploration and development of any discoveries, after which time NIOC would take over production.

12. (C) In an April 22 meeting with Econ Off, INA Senior Advisor Stevo Kolundzic said that the exploration phase of the deal was expected to last 4 years at a cost of about 18 million dollars. Econ Off reminded Kolundzic that the U.S. remained opposed to any investment in Iran, as this would be taken by the regime as an indication that the international community lacks the means to apply effective sanctions and force Iran to halt its nuclear program. Kolundzic said that he and the management of INA were cognizant of this fact and, as a result, had entered into a deal that would not result in any substantial investment in Iran in the near term. He said that INA, as a small to medium sized company, had a hard time gaining access to new fields and that the Iran deal should be viewed as a hedge against a future when the political climate with Iran could be different.

13. (C) Comment: INA has been looking at Iran for some time and is fully aware of U.S. positions regarding investment there. INA views itself as disadvantaged in the scramble for energy resources and thus forced to play on the margins, as this deal would indicate. Nevertheless, INA officials are also quick to point out to us that major European companies including Edison, Total and others are heavily involved in Iran but that unlike INA, they enjoy the backing of more influential governments.
Bradtke